IMPERIAL GENERAL PROPERTIES LIMITED
ANNUAL REPORT 1972


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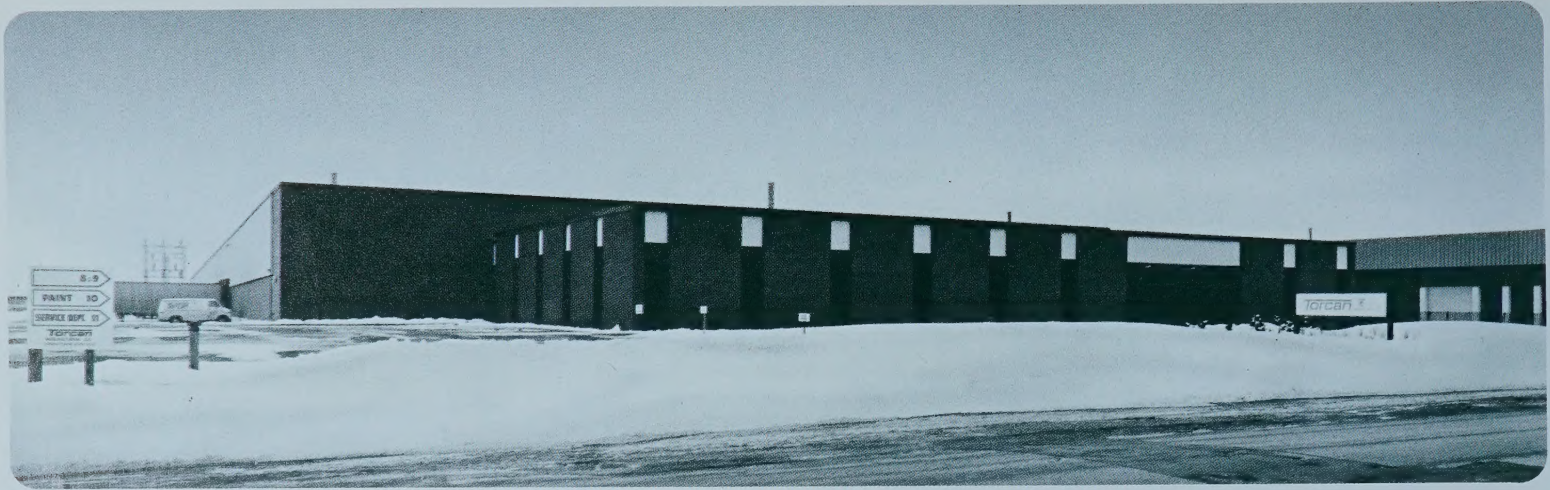
IMPERIAL GENERAL PROPERTIES LIMITED

ANNUAL REPORT 1972

Contents



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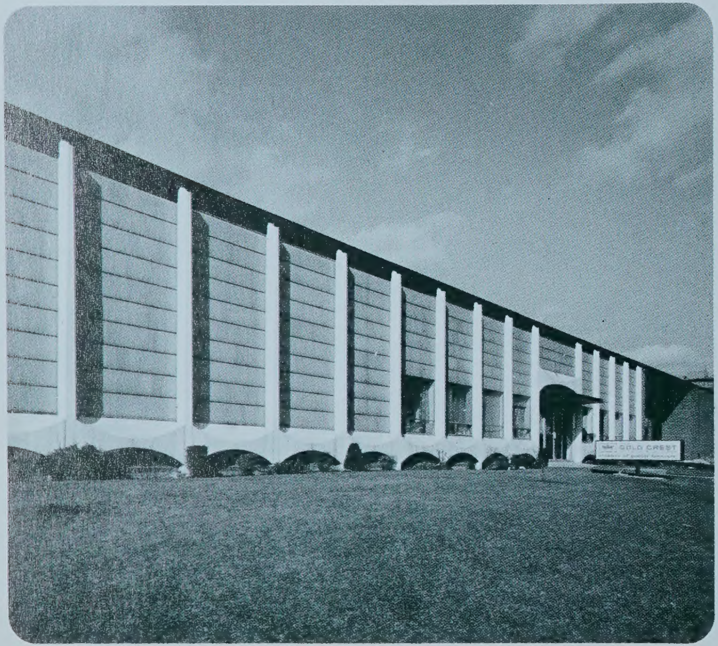

GOLD CREST

KENDALL
29 HOWDEN RD.

CORPORATE INFORMATION

DIRECTORS
Dr. H. G. Abromeit
D. A. Berlis
M. B. Deans
H. C. Kerr, Q.C.
R. J. Prusac
T. S. Ripley

OFFICERS
R. J. Prusac, Chairman of the Board and President
T. S. Ripley, Vice-President
H. C. Kerr, Q.C., Secretary-Treasurer
H. K. Brown, General Manager
R. P. Meacher, Comptroller

Registrar & Transfer Agent
Shares — Metropolitan Trust Company
Warrants — Montreal Trust Company

Auditors
Clarkson, Gordon & Co.

Head Office
25 Wingold Avenue
Toronto, Ontario

REPORT TO SHAREHOLDERS

It is my pleasure to report to you on the activities of your company for the year ended October 31, 1972, a year in which several important factors emerged which will have considerable impact on the establishment of Imperial General as a major factor in the Canadian real estate market.

As mentioned at the last annual meeting of shareholders in April, 1972, control of your company was acquired by Morenish Land Developments Limited on February 29, 1972. Morenish is a wholly owned subsidiary of Kashel Developments Limited, a joint venture company owned by W. B. Sullivan Construction Company (Sullivan Homes), the Lehndorff Group and The Metropolitan Trust Company. We are extremely proud to be associated with this group and look forward with considerable optimism to the many benefits which will be derived by your company from this particular association.

The continuing growth of any company is subject to a number of cyclical factors, particularly companies in the real estate industry. The initial review of your company by the new directors and management was directed toward lessening the unfavourable impact of economic conditions on future profitability. In this respect two key factors are of prime importance — a good base of income properties and secondly, a reliable and reasonable source of funds in order to take advantage of opportunities for profit.

While a number of industrial properties are under long-term leases at rates considerably below current market, it is the opinion of management that your company has a base of income producing assets which will yield a minimum net profit of approximately 25 cents per share annually. Opportunities to improve the return on these particular assets are continually being investigated.

At February 29, 1972, Imperial General's interim financing was provided basically from two sources: (1) a bank line of credit of $600,000 and, (2) secondary financing totalling $4,293,000 secured by mortgages receivable, mortgages on land for development, mortgages on properties under construction and secondary mortgages on income properties. Interest rates on this secondary financing, including placement fees, ranged from 11.5% to 13.5%. In light of the foregoing it was apparent that the prime responsibility confronting management was one of alleviating the burdensome costs of interim financing together with establishing a reasonable source of funds to provide short term working capital consistent with your company's growth objectives. The financial statements contained herein indicate that as at October 31, 1972, the secondary financing totalled $2,697,000 at an average interest rate of 11.4%. Since year end, $2,382,000 has been retired and notice has been given to retire a further $250,000 by May 1, 1973. It should be pointed out that following these retirements the mortgages on income producing properties total only 53% of the net book value of these particular assets. Based on current mortgage

practices a refinancing, if it were undertaken on these properties, could provide approximately $4,500,000 of capital for future requirements. As a primary source of short-term working capital the directors at the last meeting gave approval to a proposal from a chartered bank granting your company a line of credit in the amount of $3,000,000. This line of credit together with selective refinancing of existing income properties will provide Imperial General with the funds necessary to finance the construction phase of its future projects and its equity position therein.

Even though 1972 was a year of review, consolidation and adjustment for your company, it is important to note that net profit from rental properties substantiate the reference made earlier to the solid earnings base of Imperial General. Earnings for the year under review total $380,482, or 30 cents per share compared to $732,398 or 59 cents per share for the preceding year. Earnings for 1972 include $48,000 of profit realized on sale of properties compared to $356,000 in 1971. Excluding these profits, earnings total 27 cents per share in 1972 compared to 30 cents per share for the previous year.

Earnings for the current year were also adversely affected by the recognition of certain costs and expenses pertaining to prior years and by management's decision to write off to profit and loss the financing and organization expenses previously recognized as an asset. These adjustments, which were unrelated to the current year's operations, total approximately $72,000 net of tax, or 6 cents per share.

While these costs, i.e. the $72,000, are not properly recognizable as prior years' adjustments for purposes of financial presentation, you will note from the statement of retained earnings that there are very significant adjustments presented under the caption "Prior Years' Adjustments". The financial statements and the accompanying notes provide some insight into the circumstances giving rise to these adjustments. However Item 2 in note 13 may require further elaboration.

In 1968 your company entered into an agreement to sell two fully serviced apartment sites which represented roughly 35% of certain lands upon which a subdivision agreement was pending. The financial consideration was on the basis of a price per suite and the number of suites was dependent upon approval of density by the municipality. An estimate of the number of suites was made and this transaction was recorded as a sale in 1968 prior to amalgamation of the predecessor companies. In 1970 the final number of suites was determined and the above transaction was closed. The impact of this particular transaction was twofold. First, the costing of this sale did not take into account the costs required to provide fully serviced sites complete with building permit as stipulated in the purchase and sale agreement. This had the effect of passing on to the remaining sites the entire costs associated with the servicing of this subdivision. The effect of making this adjustment was to reduce costs charged to land for development by $164,045 and properties under construction by $84,992. Secondly the tax authorities have indicated that, in their opinion, this transaction took place in the 1970 taxation year and is therefore taxable in 1970. The predecessor company in which the profit was recorded in 1968 had a significant tax loss carry forward position and consequently no taxes were payable on this transaction. The combination of the merger of the predecessor companies to form Imperial General (resulting in the loss of the carry forward benefit) and the tax department's decision to tax the profit in 1970 results in an increase in your company's future tax liability and thus an increase in deferred income taxes totalling $205,440.

During 1972 your company's construction activity was primarily centred around the development of apartment house accommodation. A 15-storey building containing 197 suites was completed and is now 100% rented and occupied. Another tower containing a similar number of suites is progressing on schedule with the exterior construction now substantially complete. Subsequent to year end, a third site at the same location was repurchased by your company and excavation and foundation work is proceeding toward completion of a third tower containing a further 196 suites. As you are aware the elevator strike, which is now nearing seven months, has severely hampered many high rise projects.

Imperial General was somewhat fortunate in that Phase I received elevator clearance approximately one week before the strike commenced. Phase II is fast approaching the point where elevator construction must commence if construction is to be completed on schedule. Completion of these three apartment towers, having a total asset value of approximately $10,000,000, will add 589 suites to your company's apartment portfolio.

In the industrial field 200,000 square feet was completed and leased. A 43,000 square foot addition is now complete and a warehouse containing approximately 146,000 square feet is currently under construction for early summer occupancy. Lease terminations on existing space totalled 213,000 square feet of which 177,000 has been re-leased at current market rates.

As mentioned before, the past year has been one of review and consolidation. Your company's land holdings are not large, but are significant in light of future profitability. From the standpoint of its income property base, personnel, and financial stability, Imperial General is now organized to improve the return on existing properties, but more significantly it is in a position to take advantage of profit opportunities in all areas of the real estate market.

R. J. PRUSAC,
Chairman of the Board
and President

Toronto, March, 1973

IMPERIAL GENERAL PROPERTIES LIMITED
(Incorporated under the laws of Ontario)

and its subsidiary

CONSOLIDATED BALANCE SHEET
OCTOBER 31, 1972
(with comparative restated figures for 1971)

ASSETS

	1972	1971
Land held for development, at cost (note 2)	$ 925,642	$ 2,230,381
Properties under construction, at cost (note 2)	3,872,676	1,703,261
Income properties less accumulated depreciation (note 3)	20,129,499	18,676,435
Mortgages receivable (note 4)	498,380	1,088,320
Amounts receivable under agreements of purchase and sale due within one year	1,063,220	3,921,525
Accounts receivable	194,769	299,980
Cash	1,067,571	
Claim receivable (note 5)	1,275,000	
Furniture, equipment and vehicles, at cost, less accumulated depreciation of $33,732 (1971 — $42,906)	33,939	62,749
Deferred charges less amortization (note 6)	193,982	13,517
Prepaid expenses and sundry assets	82,295	62,615
Organization and financing expense, less amortization		71,647
Investment in affiliated company (note 7)	141,924	140,996
	$29,478,897	$28,271,426

On behalf of the Board:

R. J. PRUSAC, *Director*

T. S. RIPLEY, *Director*

See accompanying notes to consolidated financial statements

LIABILITIES

	1972	1971
Bank indebtedness — secured		$ 434,329
Accounts payable	$ 1,254,886	1,543,439
Tenants' deposits	215,172	190,174
Mortgages payable:		
Secured by land sold under agreements of purchase and sale (note 8)	535,268	1,856,450
On land held for development		789,868
On properties under construction (note 9)	2,139,582	382,868
On income properties (note 10):		
Primary financing	10,679,833	8,859,572
Secondary financing	1,936,664	3,482,672
	15,291,347	15,371,430
Provision for prior years' income taxes (note 5)	1,314,536	1,404,537
Deferred income taxes	2,051,250	1,631,293
	20,127,191	20,575,202

Shareholders' Equity

	1972	1971
Capital stock (notes 3 and 11):		
Authorized:		
250,000 preference shares with a par value of $20 each, issuable in series		
3,000,000 common shares without par value		
Issued:		
1,250,000 common shares	7,984,603	7,984,603
Contributed surplus (note 5)	1,275,000	
Retained earnings	92,103	(288,379)
	9,351,706	7,696,224
	$29,478,897	$28,271,426

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED OCTOBER 31, 1972
(with comparative restated figures for 1971)

	1972	1971 (note 13)
Rental income	$2,547,598	$2,375,093
Rental expenses:		
Mortgage interest	963,464	782,984
Property operating expenses	576,464	515,541
Depreciation (note 3)	190,725	164,183
	1,730,653	1,462,708
Net rental income	816,945	912,385
Sale of properties	1,404,947	7,132,944
Cost of properties sold	1,303,134	6,381,340
Profit on sale of properties	101,813	751,604
Interest income	322,309	186,422
Other income	21,629	33,342
	343,938	219,764
	1,262,696	1,883,753
Expenses:		
General and administrative, including depreciation of $7,222 ($13,406 in 1971)	301,719	287,856
Interest on general borrowings	86,898	33,759
Amortization of organization and financing expenses (note 15)	71,647	10,247
	460,264	331,862
Earnings before taxes on income	802,432	1,551,891
Provision for deferred income taxes	421,950	819,493
Earnings for the year	$ 380,482	$ 732,398
Earnings per share	$.30	$.59

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED OCTOBER 31, 1972
(with comparative restated figures for 1971)

	1972	1971 (note 13)
Balance, beginning of year, as previously reported	$1,455,048	$ 713,023
Prior years' adjustments (note 13)	(1,743,427)	(1,733,800)
Balance, beginning of year, as restated	(288,379)	(1,020,777)
Net income for the year	380,482	732,398
Balance, end of year	$ 92,103	$ (288,379)

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 31, 1972

1. *Principles of consolidation*

The consolidated financial statements include the accounts of the company and an active subsidiary, Northline Realty Limited, for the years ended October 31, 1972 and 1971. All intercompany accounts and transactions have been eliminated. The only other subsidiary, Wingold Construction Company Limited, has no assets and did not operate in 1972 or 1971.

2. *Accounting for land held for development and properties under construction*

Capitalization of carrying charges —
The company capitalizes as part of the cost of land held for development and properties under construction, direct carrying charges such as interest, property taxes, and professional fees, where such charges are identifiable with specific properties. Also capitalized is part of the interest on general borrowings on the basis of the company's equity in such properties.

Capitalization of general and administrative expenses —

The company also capitalizes an appropriate portion of general and administrative expenses as part of the cost of properties under construction.

Capitalization of rental income and related operating expenses —

For land held for development, rental income and related operating expenses of buildings located on these lands, and incidentally operated to produce rental income, are respectively credited and charged to the capital cost of the property.

For properties under construction, all income and operating expenses are capitalized until such time as the break-even point in cash flow from the property is attained.

In 1972 and 1971, capitalized carrying charges and administrative overhead were as follows:

	Land held for development	Properties under construction	Total 1972	Total 1971
Mortgage interest and realty taxes, net of rental income and expense	$48,724	$118,893	$167,617	$285,548
Interest on general borrowings	15,385	162,695	178,080	108,921
Administrative overhead	—	129,375	129,375	197,158
	$64,109	$410,963	$475,072	$591,627

All of the aforementioned items of income and expense are claimed for tax purposes in the year in which they are earned or incurred.

3. *Income properties*

Income properties consist of the following:

	1972	1971
Land	$ 3,969,348	$ 3,520,946
Buildings and improvements	16,826,580	15,632,452
	20,795,928	19,153,398
Less accumulated depreciation on buildings	666,429	476,963
	$20,129,499	$18,676,435

The company was created as of November 1, 1968 as an amalgamation of a number of predecessor companies. Income properties owned at the date of amalgamation are carried in the accounts at appraised values (i.e., fair market value) as determined by The Montreal Trust Company as at September 30, 1968. The appraisal increase credit of $5,765,175 ($1,749,987 of which was applicable to land and $4,015,188 to buildings) was credited to common share capital. Subsequent additions have been recorded at cost.

The carrying values of buildings are depreciated using the sinking fund method. Under this method, the total charge to income for a particular building increases each year because it includes an annual provision plus interest at 5% on the depreciation accumulated to the end of the preceding year. Industrial and commercial buildings are depreciated over forty years and apartment buildings over fifty years.

4. *Mortgages receivable*

Mortgages receivable are detailed as follows:

First mortgage arising on the sale of serviced land at 8½%, due in April 1974	$439,040
Second mortgages arising on sales of townhouses at an average rate of 12%, due over the next two years	59,340
	$498,380

5 *Claim receivable and contributed surplus*

On February 29, 1972, Morenish Land Developments Limited acquired from 2 vendors a total of 920,000 issued and outstanding common shares of the company. In connection with that transaction, each of the vendors agreed with the company to pay to the company any amounts, as defined, not reflected in the calculation of shareholders' equity

as shown on the consolidated financial statements of the company as at October 31, 1971 including amounts (if any) in excess of $800,000 for income taxes and interest and penalties thereon payable by the company and its subsidiaries for periods up to and including October 31, 1971.

Re-assessments of income taxes relating to the subsidiary companies and the predecessor companies amalgamated in 1968 have been received totalling approximately $1,500,000, including interest, in respect of the years 1962-1968 inclusive. No precise determination can be made of the ultimate liability at this time since the assessments are under appeal but the maximum liability has been recognized in the accounts by provisions totalling $1,500,000 ($1,085,000 in 1972 and $415,000 in 1970). Payments of $185,464 have been made to October 31, 1972 in respect of the assessments and, as security for the balance owing, the company has given collateral mortgages totalling $391,000 on land held for development.

Because of the indemnity provisions the maximum liability to be borne by the company without reimbursement is $800,000 and accordingly an amount of $700,000 has been recognized as recoverable from the vendors with a corresponding credit to contributed surplus. Any further adjustments will be recognized in the accounts as the matters are resolved.

The company has recognized certain other amounts to date which are recoverable from the vendors and has therefore recorded an amount receivable of $575,000.

In the opinion of legal counsel it is expected that a claim for these amounts would be successful. Payment to the company of any claim successfully established against the vendors is recoverable from the unpaid portion of the purchase price due to them from Morenish Land Developments Limited. Any further such claims will be recognized in the accounts as established.

6. *Deferred charges*

It is the company's policy to defer leasing costs, costs of tenants' improvements, and the costs of arranging mortgage financing, and to amortize these amounts on a straight-line basis over the term of the related leases or mortgages. Amortization charged to income (included in operating expenses of income properties) amounted to $24,246 in 1972 and $32,718 in 1971.

7. *Investment in affiliated company*

This investment consists of:

	1972	1971
The cost of 40% of the common shares of a company which owns an income property	$141,924	$141,924
Advances		(928)
	$141,924	$140,996

8. *Mortgage on land sold under agreement of purchase and sale*

This mortgage, having a principal balance of $535,268 at October 31, 1972, bears interest at the rate of 10¼ % per annum, and is due in 1973.

9. *Mortgages on properties under construction*

Mortgages on properties under construction include a land mortgage and advances received on permanent first mortgage financing, which bear interest at 11½ % and 9⅜ % per annum respectively, and are repayable as to principal as follows:

	Land mortgage	Advances on permanent first mortgage financing	Total
Year ending			
Oct. 31, 1973	$225,000	$ 6,335	$ 231,335
1974		9,878	9,878
1975		9,878	9,878
1976		12,347	12,347
1977		12,347	12,347
1978 and subsequent		1,863,797	1,863,797
	$225,000	$1,914,582	$2,139,582

10. *Mortgages on income properties*

Mortgages on income properties include both primary and secondary financing, bearing interest at average rates of 9.02% and 11.78% per annum respectively and are repayable as to principal as follows:

	Primary financing	Secondary financing	Total
Year ending			
Oct. 31, 1973	$ 2,025,224		$ 2,025,224
1974	1,256,514	$1,711,664	2,968,178
1975	1,210,695	225,000	1,435,695
1976	638,539		638,539
1977	1,518,184		1,518,184
1978 and subsequent	4,030,677		4,030,677
	$10,679,833	$1,936,664	$12,616,497

11. *Capital stock*

The company has reserved for issuance an aggregate of 250,000 common shares as follows:

200,000 shares for issuance upon exercise up to December 31, 1974 of outstanding share purchase warrants at $9.00 per share.

50,000 shares for issuance under an employees' stock option plan. During the year, options granted to certain officers to purchase 25,000 shares expired when these officers ceased to be employees of the company. No other options are presently outstanding.

12. *Remuneration of directors and senior officers*

Aggregate direct remuneration of directors and senior officers (as such are defined under The Business Corporations Act, 1970) was $100,000 in 1972 and $162,000 in 1971.

13. *Restatement of 1971 figures*

The 1971 accounts have been restated to reflect prior years' adjustments and revised to reflect certain changes in presentation adopted in the 1972 financial statements.

The prior years' adjustments consist of:

(1) Provision for additional income taxes in respect of the years 1962 to 1968 inclusive (note 5)		$1,085,000
(2) Adjustment of costs and income taxes applicable to certain properties sold in prior years resulting in the following adjustments to the balance sheet at October 31, 1971:		
Reduction in land held for development	164,045	
Reduction in properties under construction	84,992	
Increase in deferred income taxes	205,440	
	454,477	
(3) Provision for deferred income taxes relating to the difference as at November 1, 1968 between the book value of income properties of the predecessor companies and their value for tax purposes at that date	133,300	
(4) Retroactive adjustment to depreciation on income properties	10,150	
(5) Provision for deferred income taxes for 1969-1971 relating to the depreciation of appraisal surplus (note 3)	60,500	
	$1,743,427	

Items (1) and (3) do not affect income for the year 1971. Item (2) has the effect of increasing net income previously reported for the year 1971 by $36,460 and decreasing net income of prior years by $490,937. Items (4) and (5) have the effect of decreasing net income previously reported for the year 1971 by $18,087 and $28,000 respectively and decreasing net income of prior years by a net of $24,563.

14. *Joint venture*

The company has a 50% interest in a joint venture at a cost of $48,792 classified as land held for development. All expenses, profits and losses accrue equally to the partners. The unaudited assets and liabilities of the venture at May 31, 1972 were approximately as follows:

Assets:	
Land at cost	$213,525
Sundry assets	1,195
	$214,720
Liabilities:	
Demand mortgages payable	$213,525
Sundry liabilities	10,039
Partnership equity	(8,844)
	$214,720

In the opinion of management, the market value of the company's equity exceeds the cost to date.

15. *Change in accounting principle*

During the year, the company discontinued the amortization of organization and financing expenses and charged the unamortized balance of $71,647 to operations.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF CASH

FOR THE YEAR ENDED OCTOBER 31, 1972
(with comparative restated figures for 1971)

	1972	1971 (note 13)
Sources of cash —		
Earnings for the year	$ 380,482	$ 732,398
Add charges not requiring a cash outlay:		
Depreciation	197,947	177,589
Amortization	95,893	42,965
Deferred income taxes	421,950	819,493
Cash provided from operations	1,096,272	1,772,445
Proceeds of mortgage financing	5,328,695	3,620,520
Proceeds on discharge of mortgages receivable (net)	589,940	
Proceeds on discharge of amounts receivable under agreements of purchase and sale (net)	2,858,305	
Cash provided from other assets and liabilities (net)		547,293
	9,873,212	5,940,258
Applications of cash —		
Investment in real estate holdings (net)	2,508,465	(112,566)
Mortgage principal repayments and refunding	5,408,778	2,209,446
Investment in mortgages receivable (net)		72,395
Investment in amounts receivable under agreements of purchase and sale (net)		3,921,525
Cash applied to other assets and liabilities (net)	454,129	
	8,371,372	6,090,800
Increase (decrease) in cash	$1,501,840	$ (150,542)
Cash flow per share from operations	$.88	$1.42

See accompanying notes to consolidated financial statements

AUDITORS' REPORT

To the Shareholders of
Imperial General Properties Limited:

We have examined the consolidated balance sheet of Imperial General Properties Limited and its subsidiary as at October 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of cash for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at October 31, 1972 and the results of their operations and the source and application of their cash for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the basis of accounting for organization and financing expenses explained in Note 15 to the financial statements, were applied on a basis consistent with that of the preceding year.

The financial statements for the previous year were examined by other Chartered Accountants.

Toronto, Canada.
March 5, 1973.

CLARKSON, GORDON & CO.
Chartered Accountants


IMPERIAL GENERAL
PROPERTIES

IMPERIAL GENERAL PROPERTIES LIMITED